REVIEW OF 2012

Although the year 2012 began with a lot of hope for an economic recovery, it was primarily characterized as a year of full scale uncertainty. Despite the uncertainty in the operating environment, the changes that U.S. carriers have made since the start of the global recession in 2008 helped the industry to make a profit for the third year in a row. Many industry professionals see these changes as providing traction towards profitability, even during future periods of uncertainty. The biggest change that U.S. passenger airlines have made is the shift in focus from increasing market share to one of boosting shareholder return on investment. The U.S. airline industry has become more nimble; that is, adjusting capacity to seize opportunities or contracting in times of economic distress. As a result, it expanded its capacity by 0.1 percent in 2012 while positioning itself for a reduction of 0.1 percent this year in anticipation of the uncertain economic environment. Even during times of economic instability and distress, the industry has found ways to increase revenue. For example, air carriers are charging fees for services that used to be included in airfare (e.g. meal service), as well as for services that were not previously available (e.g. premium boarding and fare lock fees). The impact from these recent initiatives gives reason for optimism as the industry (passenger and cargo carriers combined) posted profits for the third consecutive year in 2012.

Demand for air travel in 2012 grew slowly following a relatively strong 2011 that was highlighted by improving consumer confidence and falling unemployment, despite continuing pressure of debt restructuring in Europe and the U.S. In 2012[2] system revenue passenger miles increased 0.9 percent as enplanements increased 0.8 percent. Commercial air carrier domestic enplanements were up 0.6 percent while international enplanements were up 2.4 percent. The system-wide load factor continued to rise to 82.7 percent (up 0.7 points from 2011). Domestic enplanement market share continued to rise for low-cost carriers in 2012 while network and “other” carrier and regional carrier share decreased. Domestic low cost carrier enplanement share increased by 0.7 points to 29.1 percent while the share of network and “other” carriers fell by 0.2 points to 46.6 percent and regional carrier share dropped by 0.6 points to 24.3 percent.

Capacity restraint by the carriers as helped the system wide real yield to increase by 2.4 percent in 2012. Data for FY 2012 show that the reporting passenger carriers had a combined operating profit of $6.0 billion (compared to a $5.7 billion operating profit for FY2011). The network carriers reported combined operating profits of $4.2 billion while the low cost carriers reported combined operating profits of $1.3 billion, with four out of the five network carriers and seven of the nine low cost carriers posting profits.

The general aviation market showed an improvement especially by robust contributions from the agricultural airplane segment of turboprops and strong growth in the rotorcraft sector. When revised data became available about the agricultural aircraft, the recovery was tracked back to 2011, which continued in calendar year (CY) 2012, which saw deliveries post a 3.3

[2] All stated years and quarters for U.S. economic and U.S. air carrier traffic and financial data and forecasts are on a fiscal year (FY) basis (October 1 through September 30). All stated years and quarters for international economic and world traffic and financial data are on a calendar year (CY) basis, unless otherwise stated.

percent increase. The new data revealed the U.S. manufacturer shipments in fact increased by 9.8 percent in 2011, while U.S. billings initially increased by 5.0 percent in 2011, but recorded a decline of 3.0 percent in 2012. Single engine piston shipments recovered from their negative trend to a 0.9 percent increase over the previous year. However, due to declines in the multi-engine category, total piston aircraft shipments by U.S. manufacturers were relatively flat, with an estimated increase of 0.3 percent. Turbine aircraft shipments (turboprop and business jets) by U.S. manufacturers increased by 6.2 percent in CY 2012 compared to CY 2011. Turboprop shipments, which increased by 16.2 percent in 2012 accounted for the growth in turbine shipments, as there was a 4.7 percent decline in shipments of business jets, which had ceased the previous declining trend in turbine aircraft shipments in 2011. This was a reflection of the fragile nature of the economic recovery, even though there are promising technological developments for the future the pace of the decline has slowed. General aviation activity at FAA and contract tower airports was in line with the shipments with an increase of 0.6 percent in 2012, driven by local operations.

Total operations at FAA and contract towers decreased for the 5th consecutive year, falling 0.3 percent, as activity declines in the air taxi and military categories offset increases in air carrier and general aviation activity. Large hub facilities saw activity fall by 0.8 percent, while medium hubs posted a 3.8 percent decline. Activity at small and non-hub airports rose by 0.5 percent, the first increase in activity since FY 2007. Although the overall number of flights fell, FAA's workload did not. With increasing numbers of regional and business jets in the nation's skies, fleet mix changes, and carriers consolidating operations in their large hubs, we expect increased activity growth which has the potential to increase controller workload.